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FILED/ACCEPTED

MAR 27 2007

Federal Communications Commission
Office of the Secretary

March 27, 2007

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Room TW-A325
Washington, DC 20554

*Re: Section 272(f)(1) Sunset of the BOC Separate Affiliate and
Related Requirements, WC Docket No. 02-112*

Dear Ms. Dortch:

Enclosed please find Verizon's response ("Response") to the letter dated March 13, 2007 from Donald K. Stockdale, Associate Chief of the Wireline Competition Bureau of the Commission, in the above-captioned proceeding ("Information Request"). This Response is submitted in accordance with the First Protective Order and Second Protective Order in this proceeding.¹

As directed by the Information Request, Verizon is filing with the Secretary: one copy of the complete, unredacted Response on paper, and two copies of the complete, redacted Response on paper. Verizon will provide to the Wireline Competition Bureau Staff separately five copies of its complete, unredacted Response, both on paper and on CD-ROMs.

The following Exhibits, which provide requested data in response to the Commission's March 13, 2007 Information Request, contain Highly Confidential Information because they provide numbers of customers disaggregated by customer for geographic areas smaller than the nation, including carrier-specific E911 line count listings: 1.A.1, 1.A.2, 1.A.4, 1.B, 1.C, 1.D, 1.E, 1.F.1, 1.F.2, 1.I.1, 1.J, and 2. These Exhibits have been marked "HIGHLY CONFIDENTIAL"

¹ Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements, First Protective Order, WC Docket No. 02-112, DA 07-1387 (rel. Mar. 23, 2007); Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements, Second Protective Order, WC Docket No. 02-112, DA 07-1389 (rel. Mar. 23, 2007).

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INFORMATION - SUBJECT TO SECOND PROTECTIVE ORDER IN WC DOCKET NO. 02-112 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

We are also tendering to you certain copies of this letter for date-stamping purposes. Please date-stamp and return these materials.

All inquiries relating to access (subject to the terms of the applicable protective orders) to any confidential information submitted in this Response should be addressed to:

Evan T. Leo
Kellogg, Huber, Hansen, Todd, Evans & Figel, P.L.L.C.
1615 M St. NW, Suite 400
Washington, DC 20036
Tel.: 202-326-7930
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E-mail: eleo@khhte.com

Thank you for your assistance in this matter. If you have any questions, please call me at 202-515-2467.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Joseph Jack".

Enclosures

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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Section 272(f)(1) Sunset of the)	WC Docket No. 02-112
BOC Separate Affiliate and)	
Related Requirements)	

**RESPONSE OF VERIZON
TO THE COMMISSION'S MARCH 13, 2007
INFORMATION REQUEST**

MARCH 27, 2007

REDACTED – FOR PUBLIC INSPECTION

**RESPONSE OF VERIZON TO THE COMMISSION'S
MARCH 13, 2007 INFORMATION REQUEST**

Verizon provides the following narrative answers in response to the letter dated March 13, 2007 from Donald K. Stockdale, Associate Chief of the Wireline Competition Bureau of the Commission. The narrative answers respond to each specification, and Verizon provides requested data, where available, both within the applicable text and as identified exhibits. In a number of instances, in an effort to assist the Commission in its review, Verizon is also providing additional information that it believes is relevant to the Commission's inquiry in this proceeding.

In light of the information sought by the Commission, much of the supporting material submitted here contains material that is extremely sensitive, from a commercial, competitive and financial perspective, that Verizon would not, in the normal course of its business, reveal to the public or its competitors. Where appropriate, therefore, such material is being submitted on a confidential basis pursuant to the First and Second Protective Orders in this proceeding.¹ The confidential, unredacted submission is marked "HIGHLY CONFIDENTIAL INFORMATION – SUBJECT TO SECOND PROTECTIVE ORDER IN WC DOCKET NO. 02-112 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION" or "CONFIDENTIAL – SUBJECT TO FIRST PROTECTIVE ORDER." A version of the answers redacting the confidential information and available to the public is being filed separately.

A number of the specifications appear to focus on stand-alone wireline long-distance services as if these services were a separate product market. As Verizon has previously

¹ *Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements*, First Protective Order, WC Docket No. 02-112, DA 07-1387 (rel. Mar. 23, 2007); *Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements*, Second Protective Order, WC Docket No. 02-112, DA 07-1389 (rel. Mar. 23, 2007).

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explained, however, those services no longer constitute a relevant market. Rather, for purposes of this proceeding, there is a single “any distance” market for communications services regardless of geography that includes both distance-insensitive services as well as any stand-alone offerings. Today, service providers of every variety – wireline, cable, wireless, and Voice over Internet Protocol (“VoIP”) alike – all routinely offer distance-insensitive calling plans. These distance-insensitive service plans are increasingly displacing stand-alone offerings, including stand-alone long-distance services. According to J.D. Power and Associates, “[s]eventy-five percent of U.S. households now receive their local and long distance telephone service from one provider.”² The number of customers purchasing distance-insensitive services has been steadily increasing each year, a trend that analysts expect will continue.³ Moreover, wireless distance-insensitive plans also replace what previously would have been wireline voice long-distance calls.

Although various providers still offer stand-alone long-distance services, this does not suggest there is a separate market for these services. As an initial matter, these stand-alone offerings are due in part to regulatory requirements, not market forces. State regulations often require local telephone companies to offer stand-alone local services, and equal access rules require local telephone companies to enable customers to select a separate long-distance carrier. As the Commission has found, regulations requiring certain offerings tend to “skew” offerings in the marketplace.⁴

² J.D. Power & Associates Press Release, *J.D. Power & Associates Reports: Three-Quarters of Households Now Bundle Local and Long-Distance Telephone Service with One Provider* (July 13, 2005).

³ See, e.g., D. Lemelin, In-Stat, *Wireline Remains in Decline: US Wireline Service 2005* at 19 (Mar. 2006) (noting “[c]ontinued consumer migration to alternative ‘any distance’ voice technology, including VoIP telephony and wireless services that often bundle minutes of use, or provide unlimited minutes of local and domestic long distance.”).

⁴ *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, ¶ 261 (2003) (“[R]ules

Regardless, it is clear that any stand-alone services are disciplined by distance-insensitive services and bundles that consumers are increasingly purchasing. Different services are *considered to be part of the same product market so long as they are considered reasonably interchangeable* by “marginal” customers – that is, the subset of customers who will switch between the services in the putative market in response to small changes in relative prices. The Commission has recognized that in order for two competing technologies to constrain each other’s prices, it “only requires that there be evidence of sufficient substitution for significant segments of the mass market,” not that every customer views the two services as substitutes.⁵ And, as noted above, the facts show that large numbers of consumers already have switched to distance-insensitive plans and are continuing to do so.

In any event, while the facts show there no longer is a separate long-distance market, it is all the more apparent that there is no separate *wireline* long-distance market. Consumers use cable, wireless, and VoIP services extensively in place of wireline long-distance services, and these services must therefore be included in any analysis of whether any provider or group of providers could dominate the long-distance component of voice telephone services.

Consistent with these developments, Table 1 below provides market share estimates for voice connections provided to mass-market customers in each of Verizon’s states. Although, as the Commission has recognized, static market shares are not meaningful given the rapid emergence of new competitors and the trajectory of competition, this analysis makes clear that Verizon does not have anything approaching a dominant position, and certainly does not have a

requiring line sharing may skew competitive LECs’ incentives toward providing a broadband-only service to mass market consumers, rather than a voice-only service or, perhaps more importantly, a bundled voice and xDSL service offering.”).

⁵ *Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, Memorandum Opinion and Order, 20 FCC Rcd 18433, ¶ 91 (2005) (“*Verizon/MCI Order*”).

position that would allow it to dominate in the long-distance component of voice services. The table below shows, that across the 28 states and the District of Columbia where Verizon provides wireline local telephone service, Verizon accounts for only approximately **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** percent of all voice connections provided to mass-market consumers, with cable, wireless, over-the-top VoIP, and other CLECs accounting for the rest.

These estimates were calculated as follows. The denominator is the sum of (1) Verizon's retail residential wireline access lines (including legacy MCI), (2) the number of residential Wholesale Advantage and resale lines Verizon provides to CLECs, (3) the number of competitive residential listings in the E911 database, (4) the number of wireless subscribers in Verizon's franchise areas, and (5) the number of over-the-top VoIP subscribers in Verizon's franchise areas. The first three items are based on Verizon's internal data as of June 2006.

The number of competitive E911 listings understates the number of competitive residential lines, because for some areas Verizon did not have access to current E911 listings data. These areas include Arizona, Connecticut, Idaho, Michigan, Nevada, Ohio, South Carolina, Vermont, and discrete parts of Virginia and Pennsylvania (described in the response to specification 1.f) where Verizon is no longer the E911 provider. The totals in Table 1 accordingly do not reflect the presence of cable operators or other wireline competitors within these territories. In addition, for Rhode Island, Verizon relied on E911 data as of December 2005; data for June 2006 were not available because Verizon was no longer the E911 provider in Rhode Island as of that date.

The number of wireless subscribers in Verizon's franchise areas was calculated by multiplying the number of wireless subscribers reported in Table 14 of the Commission's June

2006 Local Competition Report⁶ in the relevant state by the percentage of total residential switched access lines that Verizon serves in that state, based on data retrieved from ARMIS Report 43-08, Table III for 2005.⁷ The number of over-the-top VoIP subscribers in Verizon's franchise areas was calculated by first allocating nationwide VoIP subscribers (as reported by Bernstein Research in its September 2006 Quarterly VoIP Monitor⁸) to individual states based on the number of residential high-speed lines by state (as reported in Table 13 of the Commission's June 2006 High-Speed Internet Access Report⁹). These totals were then multiplied by the percentage of total residential switched access lines that Verizon serves in that state, based on data retrieved from ARMIS Report 43-08, Table III for 2005.

⁶ Ind. Anal. & Tech. Div., Wireline Competition Bureau, FCC, *Local Telephone Competition: Status as of June 30, 2006* at Table 14 (Jan. 2007) ("*FCC June 2006 Local Competition Report*").

⁷ Because this analysis compares Verizon wireline access lines to competitive alternatives, it does not attribute Verizon Wireless's subscribers to Verizon. This approach is appropriate given that wireless is robustly competitive with ILEC wireless affiliates competing against unaffiliated wireless providers nationwide. In order to remain competitive for wireless services, ILEC wireless affiliates must provide service offerings comparable to those of their rivals, even where such offerings compete against the affiliated ILEC's wireline service.

⁸ C. Moffett, *et al.*, Bernstein Research, *Quarterly VoIP Monitor: Playing Follow the Leader (. . . Cablevision, That Is)* at Exhibit 17 (Sept. 20, 2006) (2Q06).

⁹ Ind. Anal. & Tech. Div., Wireline Competition Bureau, FCC, *High-Speed Services for Internet Access: Status as of June 30, 2006* at Table 13 (Jan. 2007) ("*FCC June 2006 High-Speed Internet Access Report*").

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REQUEST 1.a:

1. *For each Verizon franchise area, provide:*
 - a. *The number of Verizon's (including legacy Verizon and legacy MCI's) retail residential wireline local exchange service lines and:*
 - i) *The number of these lines for which Verizon is the presubscribed interstate long distance carrier. Also provide the number of these lines that are presubscribed to: (1) a Verizon usage per minute plan; (2) a Verizon plan that includes a bucket of interexchange minutes; and (3) a Verizon plan that includes an unlimited number of interexchange minutes. For each individual plan, provide the number of lines, the total number of interstate interLATA long distance minutes, the average number of minutes used, and the standard deviation of minutes used.*
 - ii) *The number of these lines for which each of AT&T, Sprint, or another long distance carrier is the presubscribed interstate long distance carrier.*
 - iii) *The number of these lines for which there is no presubscribed interstate long distance carrier.*

RESPONSE TO SPECIFICATION 1.a:

As noted above, there is no separate long distance or wireline long distance market, nor is there a separate market for long distance provided over Verizon's wireline local exchange service lines. Any meaningful measure of the state of competition must account for all competing providers currently in the market or already emerging. Subject to that caveat, responses to each of the Commission's information requests are provided below.

Exhibits 1.A.1 through 1.A.4 contain Verizon's response to this specification, which is based on legacy Verizon's internal databases. The worksheet labeled "VZ Residential Retail" in Exhibit 1.A.1 provides, for each Verizon franchise area¹⁰ and Verizon as a whole, and for each quarter between year-end 2003 and year-end 2006, the number of legacy Verizon's retail

¹⁰ Unless otherwise noted, franchise area data provided throughout these responses are reported in voice-grade equivalents, on a located basis. The term "Located" refers to access lines based on where the customer is located (in contrast to "Operated," which refers to switched access lines based on where the switch serving that customer is located). Verizon excludes data for its former franchise area in Hawaii, which was divested in May 2005.

residential wireline access lines. Exhibit 1.A.4 separately provides retail residential wireline access lines including those lines formerly served by MCI, which are not included in the legacy Verizon totals provided in Exhibits 1.A.1 through 1.A.3.

The remaining worksheets in Exhibit 1.A.1 provide, for each Verizon franchise area and Verizon as a whole, for every quarter in 2005 and 2006, the number of legacy Verizon retail residential wireline access lines that were presubscribed to the three different classes of Verizon plans: (1) block-of-time plans, which provide a bucket of interexchange minutes for a fixed price, and per-minute usage charges beyond that; (2) Freedom plans, which include an unlimited number of interexchange minutes; and (3) all other domestic plans, which involve per-minute interexchange usage charges. These data were provided by Verizon Long Distance and include all lines with PIC codes assigned to Verizon Long Distance. These data include PIC information for out-of-franchise areas within each relevant state; Verizon Long Distance does not distinguish between in-franchise and out-of-franchise areas within these states. Verizon believes that the number of lines PIC'd to Verizon Long Distance in out-of-franchise areas is small, however. Data for lines that are presubscribed to the former MCI are not included within these totals, but are instead separately presented in Exhibit 1.A.2. Data for 2004 are not available.

Exhibit 1.A.1 also includes, for each franchise area and for Verizon as a whole, and for each long-distance plan, the total number of interLATA (interstate and intrastate) long-distance minutes, and the average number of minutes used. Verizon does not have the "standard deviation of minutes" data requested.

Although Verizon provides the calculation for average minutes per line for plans in North Carolina and South Carolina, these packages are a relatively new offering, so the data do not necessarily represent a reasonable trend.

Exhibit 1.A.2 provides, for each Verizon franchise area and Verizon as a whole, year-end data for 2004 through 2006 on the number of legacy Verizon's retail residential wireline access lines that were (a) presubscribed to AT&T, (b) presubscribed to Sprint, or (c) presubscribed to another long-distance carrier.¹¹ This exhibit also provides the number of Verizon's retail residential lines that were presubscribed to MCI. December 2004 data are not available for the former Bell Atlantic states, so March 2005 data are provided in lieu of December 2004 data in Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia, and the District of Columbia.

Exhibit 1.A.3 provides, for each Verizon franchise area and Verizon as a whole, year-end data for 2004 through 2006 on the number of Verizon's retail residential wireline access lines that were not presubscribed to any long-distance carrier. December 2004 data are not available for the former Bell Atlantic states: March 2005 data are provided in lieu of December 2004 data in Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia, and the District of Columbia.

¹¹ The access line and PIC information used in Exhibit 1.A.2 are slightly different from the official access line counts contained in Exhibit 1.A.1, because the data are taken from different internal Verizon systems.

REQUEST 1.b:

- b. The number of residential lines Verizon provides to resellers, and the name and corresponding line counts for the top three purchasers of resold lines.*

RESPONSE TO SPECIFICATION 1.b:

Exhibit 1.B contains Verizon's response to this specification which is based on Verizon's internal databases. The worksheet labeled "Residential Resale" provides, for each Verizon franchise area, and for each quarter between year-end 2003 and year-end 2006, the number of residential lines Verizon was providing to resellers (excluding MCI). The worksheet labeled "Resale – Top 3" provides, for each franchise area and for Verizon as a whole, the line counts for the top three purchasers of resold lines as of the end of each year.

REQUEST 1.c:

- c. *The number of residential UNE-L lines provided by Verizon, and the name and corresponding line counts for the top three purchasers of UNE-L lines.*

RESPONSE TO SPECIFICATION 1.c:

Verizon has no way to determine whether a competing carrier is using an unbundled loop to serve a residential or business customer. Some competing carriers, such as Cavalier, have stated that they are using unbundled loops to serve residential customers.¹² Exhibit 1.C contains Verizon's response to this specification, which is based on Verizon's internal databases. The worksheet labeled "UNE Loops" provides, for each Verizon franchise area and for Verizon as a whole, and for each quarter between year-end 2003 and year-end 2006, the number of voice-grade equivalent lines that Verizon was providing to competing carriers (excluding MCI) as unbundled loops. The worksheet labeled "UNE Loops – Top 3" provides, for each franchise area and for Verizon as a whole, the voice-grade equivalent line counts for the top three purchasers of unbundled loops as of the end of each year.

¹² See Opposition of Cavalier Telephone Subsidiaries to Verizon's Petitions for Forbearance at 1-2, 9-12, *Petitions of the Verizon Telephone Companies for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Boston, New York, Philadelphia, Pittsburgh, Providence, and Virginia Beach Metropolitan Statistical Areas*, WC Docket No. 06-172 (FCC filed Mar. 5, 2007) (indicating that Cavalier "provides voice and data services to residential and business customers" and relies on unbundled loops to do so).

REQUEST 1.d:

- d. The number of residential lines that Verizon provides through negotiated commercial agreements, and the name and corresponding line counts for the top three purchasers of these lines.*

RESPONSE TO SPECIFICATION 1.d:

Exhibit 1.D contains Verizon's response to this specification, which is based on Verizon's internal databases. The worksheet labeled "Residential Wholesale Advantage" provides, for each Verizon franchise area, and for each quarter between year-end 2003 and year-end 2006, the number of residential Wholesale Advantage lines Verizon was providing to competing carriers (excluding MCI). The worksheet labeled "Wholesale Advantage – Top 3" provides, for each Verizon franchise area and for Verizon as a whole, the line counts for the top three purchasers of Wholesale Advantage as of the end of each year. Wholesale Advantage is the market-based successor to the regulated UNE platform service that, effective March 11, 2006, Verizon was no longer required to provide.¹³ The data for periods prior to this date reflects volumes of UNE platform lines.

¹³ In New York, UNE-P continues to be available until December 21, 2007 in Density Zone 2.

REQUEST 1.e:

- e. The number of Verizon's retail residential DSL lines and the proportion of these customers for which Verizon does not also provide wireline local exchange service.*

RESPONSE TO SPECIFICATION 1.e:

Exhibit 1.E contains Verizon's response to this specification, which is based on Verizon's internal databases. It provides, for each Verizon franchise area and Verizon as a whole, and for each quarter between year-end 2003 and year-end 2006, the number of Verizon's residential DSL lines. It also indicates the proportion of customers for which Verizon does not also provide wireline local exchange service. Data for Pennsylvania and Virginia for the second quarter of 2006 are based on estimates because actual billing data was not available for this period.

REQUEST 1.f:

- f. By carrier, the number of residential access lines provided by facilities-based providers other than Verizon (e.g., E-911 listings in which Verizon is not the underlying local exchange carrier).*

RESPONSE TO SPECIFICATION 1.f:

The number of residential E911 listings that competing carriers have obtained is a reasonable proxy for the number of residential lines these carriers serve. But not all types of facilities-based providers that compete with residential wireline service obtain E911 listings. For example, wireless carriers do not generally obtain E911 listings. In addition, not all over-the-top VoIP providers appear to obtain E911 listings. Thus, to the extent the Commission seeks to use the data here to conduct a market-share analysis, it must look beyond E911 listings data and consider these other competitive alternatives for the analysis to be meaningful.

Exhibit 1.F.1 provides the number of residential E911 listings obtained by competing carriers (excluding MCI) in all Verizon franchise areas, except those in Arizona, Connecticut, Nevada, and Vermont. The worksheets in this file contain E911 listings data as of December for 2003 through 2006, with the following exceptions: data for California, Illinois, Indiana, North Carolina, Oregon, Texas, Washington, and Wisconsin are not available for 2003; data for Rhode Island are only available through 2005;¹⁴ and data for Idaho, Michigan, Ohio, and South Carolina are available only for January 2007. In discrete areas of Pennsylvania¹⁵ and Virginia,¹⁶ Verizon

¹⁴ Because Verizon is no longer the E911 provider for the state of Rhode Island, the E911 listings data for this state are available to Verizon only up to December 2005. Verizon is still the E911 provider in other parts of its footprint, so Verizon has E911 listings data for these other parts of the footprint through December 2006. Between December 2005 and December 2006, Verizon has seen steady growth in competitive E911 listings in the parts of the footprint where Verizon is still the E911 provider, and there is every reason to believe that the same is true of those areas where Verizon is not the E911 provider. Thus, the E911 listings data used here undoubtedly understate the extent of competition in Rhode Island today.

¹⁵ Due to a change in the process by which data are entered into the E911 database in Allegheny County, beginning in September 2005, Verizon no longer has access to complete E911 listings data disaggregated by CLEC for the entire county. Verizon is still the E911 provider in other parts of the state, so Verizon has E911 listings data for these other parts of the state through December 2006. Between September 2005 and December 2006, Verizon has

is no longer the E911 provider and is not providing E911 data for those areas. Although Verizon provides E911 data for New Jersey for December 2003 through December 2006, due to database *modifications performed by the E911 administrators in the first quarter of 2006*, data that were obtained before this modification may not be comparable to data that were obtained after this modification.

With respect to Arizona, Connecticut, Nevada, and Vermont, Exhibit 1.F.2 provides the totals of local numbers that competing carriers (excluding MCI) have ported to their own switches (*i.e.*, LNP data), as of December for 2003 through 2006. Verizon has no way to determine whether a competing carrier is porting a number to serve a residential or business customer.

seen steady growth in competitive E911 listings in the parts of the state where Verizon is still the E911 provider, and there is every reason to believe that the same is true of those areas where Verizon is not the E911 provider. Thus, the E911 listings data used here undoubtedly understate the extent of competition in Pennsylvania today.

¹⁶ Because Verizon is no longer the E911 provider for the City of Virginia Beach, the E911 listings data for the Virginia Beach Public Safety Answering Point ("PSAP") are available to Verizon only up to March 2005. Verizon is still the E911 provider in other parts of the state, so Verizon has E911 listings data for these other parts of the state through December 2006. Between March 2005 and December 2006, Verizon has seen steady growth in competitive E911 listings in the parts of the state where Verizon is still the E911 provider, and there is every reason to believe that the same is true of those areas where Verizon is not the E911 provider. Thus, the E911 listings data used here undoubtedly understate the extent of competition in Virginia today.

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REQUEST 1.g:

- g. *An estimate of the total number of residential consumers relying upon over-the-top VoIP for all of their voice telecommunications needs, by provider.*

RESPONSE TO SPECIFICATION 1.g:

Verizon does not maintain any internal data that would enable it to obtain the total number of residential customers relying upon over-the-top VoIP for all of their voice telecommunications needs either as a general matter, or for the individual franchise areas requested here. Verizon also is not aware of any public sources that provide these data.

Bernstein Research compiles information regarding the number of over-the-top VoIP subscribers nationwide, by quarter.¹⁷ These totals appear to include only subscription-based services such as Vonage, rather than free services such as Skype, Yahoo! Voice, and Google Talk. Exhibit 1.G provides estimates based upon these totals, for each Verizon franchise area, and for each quarter between year-end 2004 and the second quarter of 2006. The estimated totals for each Verizon franchise were extrapolated by multiplying nationwide over-the-top VoIP subscribers by the percentage of residential high-speed lines in each state, using data from the Commission's High-Speed Internet Access Report, and by allocating the proportion of residential switched access lines within a state served by Verizon (as retrieved from ARMIS Report 43-08, Table III) to those high-speed lines.

Bernstein does not report subscriber totals by provider. According to other public sources, it appears that Vonage, Packet8, and Lingo are the three largest providers in terms of subscribers.

¹⁷ See J. Halpern, *et al.*, Bernstein Research, *Quarterly VoIP Monitor: The "Real" Price Gap for VoIP Driving Rapid Subscriber Growth* at Exhibit 1 (July 15, 2005) (4Q04 data); C. Moffett, *et al.*, Bernstein Research, *Quarterly VoIP Monitor: Six Million and Counting* at Exhibit 1 (June 12, 2006) (1Q05 data); C. Moffett, *et al.*, Bernstein Research, *Quarterly VoIP Monitor: Playing Follow the Leader (... Cablevision, That Is)* at Exhibit 17 (Sept. 20, 2006) (2Q05-2Q06 data).

Verizon has no way to determine what percentage of subscribers is relying upon over-the-top VoIP for all of their voice telecommunications needs. Moreover, in order for a service to compete with traditional wireline voice service, it is not necessary that some or all consumers use that service as a complete substitute. To the extent that consumers are using over-the-top VoIP services for a significant fraction of their voice telecommunications needs, that imposes a constraint on traditional wireline service.

In any event, with respect to subscriber-based over-the-top VoIP services, it appears that most customers are using this in place of their traditional wireline phone service. For example, analysts have reported that approximately 60-70 percent of Vonage's subscribers port their telephone numbers.¹⁸ Of course, even where customers do not port their telephone number, they may still be using their over-the-top VoIP service as their primary voice service.

¹⁸ See D. Shapiro, *et al.*, Banc of America Securities, *Battle for the Bundle* at 30 (June 14, 2005).

REQUEST 1.h:

- h. An estimate of the total number of residential consumers that subscribe to mobile wireless service instead of wireline local exchange service and long distance service.*

RESPONSE TO SPECIFICATION 1.h:

Verizon does not have information on the total number of residential consumers that subscribe to mobile wireless service instead of wireline local exchange service and long distance.

The Commission's Local Competition Report provides the number of wireless subscribers per state on a biannual basis. Neither Verizon nor Verizon Wireless maintains data in the ordinary course of business that provides the number of wireless subscribers in Verizon's franchise areas within these states. Nor would such data necessarily be meaningful, given that subscribers to mobile wireless service do not necessarily obtain or use the service in the same location as their primary residence. For example, some residents of Virginia and Maryland obtain wireless service in the District of Columbia. Nonetheless, subject to these caveats, and those set out below, the response to Specification 1.j, below, provides state-by-state totals of Verizon Wireless's subscribers.

Neither Verizon nor Verizon Wireless has data on the portion of wireless subscribers that are residential. Here, too, such data would be of limited value. In the wireline context, business and residential service have traditionally been sold separately, typically with different prices and other terms, and most consumers have separate business and residential lines, at work and home, respectively. By contrast, there are no separate business and residential classes of wireless service, and most consumers have a single wireless phone, rather than separate phones for work and personal use.

Verizon does not have internal data that provide the number of residential customers that subscribe to mobile wireless service instead of wireline local exchange service and long distance. Analysts have estimated that wireless subscribers make 64 percent of their long-distance calls and 42 percent of their local calls on their wireless phones.¹⁹ Analysts have also estimated 12.8 percent of wireline access lines have been lost to wireless, and that the total will rise to 16.7 percent within two years.²⁰ Analysts predict that the number of wireless-only users will grow to 18-25 percent of the market by 2010.²¹

The Commission has recognized that “growing numbers of subscribers in particular segments of the mass market are choosing mobile wireless service in lieu of wireline local services,” and that wireless is competing with wireline both for minutes of use and, in many cases, for subscriber lines.²² The Commission has further noted that it is not necessary that all segments of the mass market be likely to rely upon mobile wireless services in lieu of wireline local services in order for wireless service to constrain prices for wireline service, but rather the

¹⁹ K. Griffin, Yankee Group, *Pervasive Substitution Precedes Displacement and Fixed-Mobile Convergence in Latest Wireless Trends* at 5 and Exhibit 3 (Dec. 2005); see also D. Chamberlain, et al., In-Stat, *Wireless in the Consumer Telecom Bundle: Discounts without Convergence* at 15 (Oct. 2005) (19 percent of survey respondents transferred all long-distance calling to wireless); Pew Internet & American Life Project, *Pew Internet Project Data Memo: Cell Phone Use* at 4 (Apr. 2006) (26 percent of wireless subscribers surveyed said they couldn't live without a wireless phone).

²⁰ T. Horan, et al., CIBC World Markets, *4Q06 Communications and Cable Services Preview* at Exhibit 8 (Jan. 18, 2007); see also B. Bath, Lehman Brothers, *Telecom Services – Wireline* at Figure 11 (July 7, 2005) (estimating 24 million wireline access lines have been lost to wireless providers since 1999).

²¹ See F. Louthan, et al. Raymond James Equity Research, *Reassessment of Access Lines and Wireline Carriers* at 2 (July 5, 2006) (predicting 25 percent wireless substitution by 2010); R. Bilotti, et al., Morgan Stanley, *Cable/Satellite: Looking into 3Q06 and 2007: Cautious on Top Line, Capital Expenditures, and Lofty Valuations* at Exhibit 53 (Oct. 25, 2006) (predicting 20 percent wireless substitution by the end of 2009); V. Shvets, et al., Deutsche Bank, *4Q04 Review: Wireless OK . . . RBOCs Fare Poorly* at 6 (Feb. 28, 2005) (“wireless cannibalization” now accounts for “more than 1m lines lost per quarter”); J. Chaplin, et al., JP Morgan, *State of the Industry: Consumer* at Table 57 (Jan. 13, 2006) (estimating that, by the end of 2010, wireless will capture 18 percent of primary lines).

²² Verizon/MCI Order ¶ 91.

analysis “only requires that there be evidence of sufficient substitution for significant segments of the mass market.”²³

²³ *Id.*

REQUEST 1.i:

- i. *For all Verizon affiliates and subsidiaries, including legacy Verizon and legacy MCI, estimates of:*
 - i) *Verizon's market share of presubscribed long distance services provided to residential customers, Verizon's market share of a local and long distance service bundle, and the elasticity of demand for Verizon's long distance services.*
 - ii) *The churn rate for consumers switching among Verizon's plans, and the churn rate for consumers switching to non-Verizon long distance services.*

RESPONSE TO SPECIFICATION 1.i:

The Commission's request for "market share of presubscribed long distance services provided to residential customers" presumes that there is a market for such services. It further assumes that wireline long-distance is a separate market. As described above, however, there are no such markets. Today, there is a single "any distance" market for communications services regardless of geography that includes both distance-insensitive services as well as any stand-alone offerings, and includes intermodal competitors such as cable, wireless, and VoIP, as well as traditional wireline carriers. Table 1 above provides, for each Verizon franchise area and for Verizon as a whole, for June 2006, the share of any-distance voice connections represented by Verizon's local residential switched access lines.

Exhibit 1.I.1 provides an estimate of the percentage of legacy Verizon residential wireline access lines that are presubscribed to Verizon Long Distance, for each Verizon franchise area, and for each quarter between the first quarter of 2005 and year-end 2006. The denominator used in these calculations is the sum of residential Verizon retail, resale, and Wholesale Advantage lines, and residential E911 listings data; the denominator includes legacy MCI lines. As described in Verizon's response to Specification 1.f, in some cases E911 listings data are not available for some portion or all of a state. (It also does not include all competing providers such

as wireless and some VoIP providers.) The resulting denominator is thus understated, and the percentage of residential lines presubscribed to Verizon Long Distance is correspondingly overstated given that most competitors provide long-distance service to the customers to whom they provide local service. Percentages are calculated separately for residential lines presubscribed Verizon long-distance plans, and for residential lines presubscribed to Verizon Freedom bundled local/long-distance plans, but in both cases the denominator is all retail residential lines. It is reasonable to include all competitive residential lines in the denominator used to calculate the percentage of residential lines presubscribed to Verizon Freedom bundled plans because most competitors provide bundled service plans to their customers. These data are based on the presubscribed lines provided in Exhibit 1.A.1.

As these data show, the percentage of residential wireline access lines that are presubscribed to Verizon Long Distance is below the levels at which the Commission previously made findings of non-dominance with respect to long-distance services, even before the advent of intermodal competition.²⁴

Exhibit 1.I.2 provides the migration rate for residential wireline customers switching among Verizon Long Distance plans for each quarter in 2005 and 2006, and the churn rate for consumers switching to another long-distance carrier, for each quarter between year-end 2003 and year-end 2006. Migration-rate data are not available prior to 2005.²⁵

²⁴ When the Commission declared AT&T to be non-dominant in the provision of domestic interstate interexchange services, AT&T's market share of such services was estimated to be approximately 60 percent. *AT&T Reclassification Order* ¶ 67. Likewise, AT&T's share of the international message telephone service market was estimated to be sixty percent when AT&T was declared non-dominant in the provision of those services, and AT&T's average market share in 76 select countries was 74 percent, and AT&T faced no competition at all in four countries. *Motion of AT&T Corp. To Be Declared Non-Dominant for International Service*, Order, 11 FCC Rcd 17963, ¶ 40 (1996).

²⁵ Verizon is determining whether data on the migration rate and churn rate is available with respect to the former MCI.